

## Message Text

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ACTION COME-00

INFO OCT-01 ARA-10 ISO-00 EB-07 /018 W

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R 172102Z APR 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 2941

UNCLAS SANTIAGO 2738

E.O.11652:N/A

TAGS: BEXP, CI

SUBJ: MAJOR PROJECT; INFORSA NEWSPRINT EXPANSION

REF: STATE 75829, STATE A-867

1. SUMMARY: STATE OWNED PAPER MANUFACTURER INFORSA PLANS 120,000 TON EXPANSION OF NEWSPRINT PRODUCTION; SEEKS FOREIGN SUPPLIERS', FINANCING. END SUMMARY.

2. EMBASSY HAS INTERVIEWED DIRECTOR GENERAL ALEXANDER CHACE OF INDUSTRIAS FORESTALES S.A. (INFORSA) ABOUT PROJECTED EXPANSION OF FIRM'S CAPACITY TO PRODUCE NEWSPRINT. CHACE CONFIRMS THAT INFORSA PLANS EXPAND PRESENT CAPACITY OF 80,000 TONS PER YEAR TO SOME 200,000 TONS.

3. FEASIBILITY STUDY OF NEW UNIT IS DUE TO BE DELIVERED TO INFORSA THIS WEEK BY CANADIAN FIRM H.A. SIMONS. INFORSA PROMISED TO GIVE EMBASSY COPY WITHIN TWO-THREE WEEKS. BY MID-MAY INFORSA EXPECTS TO HAVE GOC APPROVAL TO ORDER EQUIPMENT AND SERVICES FOR EXPANDED NEWSPRINT FACILITY. WHILE COMPETITION WITHIN GOC FOR HARD CURRENCIES TO PROCURE IMPORTS FOR CAPITAL EXPANSION IS TOUGH, INFORSA BELIEVES IT IS IN A FAVORED POSITION SINCE NEARLY ALL OF THE EXPANDED NEWSPRINT PRODUCTION IS TO BE EXPORTED.

4. INFORSA'S SELECTION OF SUPPLIERS OF EQUIPMENT AND SERVICES WILL BE DETERMINED LARGELY BY CREDIT AVAILABILITY. HOWEVER, FIRM FAVORS NORTH AMERICAN SUPPLIERS, UNCLASSIFIED

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ACCORDING TO CHACE, SINCE THE CHILEAN PAPER INDUSTRY

TRADITIONALLY HAS WORKED WITH U.S. AND CANADIAN EQUIPMENT AND ENGINEERS.

5. CHACE SAYS THAT INFORSA WILL GLADLY CONSIDER JOINT-VENTURE OFFERS BY U.U. FIRMS, AS THIS APPROACH WOULD AVOID NEED TO GAIN APPROVAL OF NEW FOREIGN CREDIT. FIRM ESTIMATES 85 PERCENT OF NEWSPRINT PRODUCTION OF EXISTING AND PROPOSED UNITS WOULD BE EXPORTED. TOTAL VALUE OF EXPANSION ESTIMATED AT \$100 MILLION.

6. IN ADDITION TO RESPONDING REFTEL, EMBASSY WOULD LIKE THIS TO BE CONSIDERED AS "MAJOR PROJECT" IN SENSE OF STATE A-867. WE WILL MAINTAIN CONTACT WITH INFORSA TO FOLLOW FURTHER DEVELOPMENTS, SUCH AS POSSIBLE TRIP TO U.S. WHICH IS NOT YET FIRM.

7. COMMENT: AS DEPARTMENT IS AWARE, VIRTUALLY EVERY PRODUCTIVE SECTOR IN CHILE HAS VIABLE EXPANSION PLANS. HOWEVER, GOC'S ABILITY TO CONTRACT NEW FOREIGN DEBTS, AS WELL AS ITS LOCAL COST FINANCING CAPABILITY, IS SEVERELY LIMITED. GOC IS TRYING TO APPROVE PROIECTS ONLY IN HIGHEST PRIORITY SECTORS. TO GREAT EXTENT THESE SECTORS HAVE NOT YET BEEN IDENTIFIED. INFORSA'S WILLINGNESS TO CONSIDER JOINT PARTICIPATION AS WAY AROUND DIFFICULTTY IS COMMON GAMBIT, BUT AS PRACTICAL MATTER APPROVAL OF FFOREING PARTICIPATION IN INFORSA AND DETAILS OF SUCH PARTICIPATION VERY LIKELY WOULD INVOLVE CONSIDEREABLE NEGOTIATION AND DELAY. IN SHORT, INFORSA'S EXPANSION PLAN MAY MAKE AS MUCH ECONOMIC SENSE AS ITS DIRECTOR BELIEVES AND STILL NOT BECOME ONE OF THE CHOSEN FEW.  
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